Report to
President William Jefferson Clinton
of the Interagency Enforcement Team
Regarding the
U.S.-Japan Agreement on Autos and Auto Parts

December 4, 1997

Prepared by:
U.S. Department of Commerce
and
The Office of the U.S. Trade Representative

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Results

The United States and Japan are nearing the halfway mark in the comprehensive Automotive Agreement signed on August 23, 1995. While the Agreement has resulted in progress in some areas, trends in other key areas are disappointing and additional substantial efforts are required to achieve the Agreement's objectives of eliminating market access barriers and significantly expanding sales opportunities in this sector. The U.S. Government is particularly concerned that the positive trends seen during the first year of the Agreement have stalled and urges Japan to redouble its commitment to make on-going efforts throughout the life of the Agreement. Moreover, the United States is concerned about the surge in Japanese auto exports to the United States and other countries since the fourth quarter of 1996.

Progress has fallen short in several key areas of the Agreement:

- After increasing 34 percent in 1996, sales in Japan of motor vehicles produced by the Big Three in North America declined 20 percent during the first nine months of 1997. This drop occurred despite the efforts of the Big Three to maintain their price competitiveness in the face of a weak yen. The decrease in overall foreign vehicle sales well exceeded the 2 percent contraction in the Japanese auto market.

- The U.S. companies continue to seek high-quality, high-volume dealerships, but many Japanese dealers continue to have reservations about carrying competing foreign vehicles for fear that doing so could compromise their relationship with their Japanese auto supplier and thereby jeopardize their business. The Big Three U.S. automakers have added only 142 new dealer outlets through direct franchise agreements with Japanese dealerships since the signing of the Agreement, with the pace diminishing markedly this year. As of December 1996, 103 new sales outlets were added, while only 39 have been added so far this year. The Government of Japan recently announced that it will take a more proactive role in ensuring that Japanese auto dealers understand that they are free to carry competing products of any manufacturer. Serious efforts in this area are critical to the ability of foreign automakers to gain direct and complete access to dealerships, which is key to achieving real access to the Japanese automotive market.

- The Ministry of Transport (MOT) has denied several deregulatory requests by the U.S. Government and private sector during the past year. In particular, the Japanese Government has yet to remove any additional items from the disassembly repair regulations or the so-called "critical parts" list in more than a year, despite its commitment under the Agreement to review the need for maintaining items on this list. (The disassembly repair regulations require repair work on seven major component systems of an automobile -- e.g. brake system -- to be done at dealerships or other MOT-certified garages. These garages tend almost exclusively to use Japanese parts because they are owned by or closely affiliated with Japanese auto manufacturers. The

U.S. Government believes that these repairs can be conducted safely at independent garages if performed by qualified mechanics.)

Progress has been made in other areas of the Agreement:

- U.S. auto parts exports to Japan grew 14 percent in the first half of 1997 and sales to Japanese transplants increased 8 percent during Japan fiscal year (JFY) 1996. At the same time, U.S. imports of parts from Japan fell 13 percent during this period -- in large part because Japanese transplants are substituting parts imported from Japan with U.S. parts. Nonetheless, sales of original equipment (OE) parts to Japan continue to be low, and despite large percentage increases, actual U.S. aftermarket parts sales to both Japanese transplant manufacturers in the United States and Japanese manufacturers in Japan remain small.

- In February, MOT introduced two new categories of service garages into the Japanese certified garage system. This action will encourage competition and create new opportunities for foreign parts producers by permitting smaller independent garages, which are more inclined to use foreign parts, to undertake repairs previously limited to dealerships or other MOT-certified garages. To facilitate the establishment of these new garages, the U.S. Government has requested that MOT revise regulations regarding the certification of mechanics employed by these garages. So far, however, MOT only has agreed to hold hearings on this issue early next year. We urge the implementation of such additional deregulatory measures in the automotive sector that will produce meaningful progress in increasing foreign access to the Japanese market.

Implementation Efforts

The Clinton Administration attaches high priority to vigorous implementation of the Automotive Agreement because of the importance of this sector to the U.S. economy. The interagency monitoring team works closely with industry to ensure that the objectives of the Agreement are achieved. In addition, officials at every level of the U.S. Government, including the President, have underscored the importance of achieving additional progress under the Automotive Agreement.

In August, Ambassador Barshefsky and Secretary Daley sent a letter to MOT urging the Japanese Government to increase the pace and scope of deregulatory action. They welcomed the Japanese Government's plans to deregulate do-it-yourself repairs, but stated that this step alone would be unlikely to result in meaningful improvements in market access for foreign auto parts manufacturers because do-it-yourself repairs constitute an extremely small segment of the auto parts aftermarket. U.S. officials also have pressed for further deregulation and genuine market opening during numerous meetings with officials of the Ministry of International Trade and Industry (MITI), MOT, and other relevant ministries.

The United States formally raised concerns about the lack of progress in automotive sales, dealerships, and aftermarket deregulation during annual consultations required under the Agreement, which were held in San Francisco on October 8-9. The U.S. concerns on each of these issues were strongly echoed by the representatives from the European Union, Canada, and Australia, who participated as observers in the consultations. The talks were elevated to the Assistant USTR/Assistant Secretary of Commerce level to facilitate concrete progress on this issue and underscore both countries' mutual commitment to implementing the Agreement.

Quantitative and Qualitative Criteria

As part of the Agreement, 17 objective criteria were included in order to evaluate progress in the three main areas -- motor vehicles, automotive parts and Japanese Government deregulation of the automotive aftermarket. To ensure compliance with the Agreement, USTR and the Commerce Department announced in 1995 the formation of an unprecedented Interagency Enforcement Team to monitor progress. The Team was instructed to focus its efforts on the collection and analysis of data pertinent to the 17 quantitative and qualitative criteria, and to issue semiannual reports during the five-year term of the Agreement. The body of this report contains a detailed evaluation of these criteria. The following is a summary of the key findings.

Criteria: Change in the number of new foreign motor vehicles sold in Japan.

Result: Total import sales in Japan fell 13 percent during the first nine months of 1997 as compared with the same period the previous year. Imports now account for 5.4 percent of the Japanese market, compared with 6.1 percent a year ago.

Criteria: Change in the number of direct franchise agreements concluded.

Result: The Big Three have obtained only 39 new sales outlets through direct franchise agreements with Japanese dealers this year for a total of 142 since the signing of the Agreement. Foreign firms need wider direct access to distribution networks to gain real access to the Japanese automotive market. In this regard, the U.S. Government looks forward to further progress following the recent announcement by the Government of Japan that it will more aggressively work to ensure that Japanese auto dealers recognize that they are free to carry competing brands of products without fear of retaliation.

Criteria: Efforts of foreign vehicle manufacturers to compete in the Japanese automotive market.

Result: The Big Three are competing aggressively in the Japanese market in terms of quality, price, and after-sales support. U.S. auto manufacturers are selling 41 car lines in Japan in all market segments and have followed through on their plans to introduce right-hand-drive models into the market. In addition, they have improved their distribution systems for replacement parts and invested in strengthening their vehicle distribution networks. These efforts and the level of investment by U.S. auto manufacturers demonstrate their long-term commitment to the Japanese market.

Criteria: Change in the value of foreign auto parts exports to Japan.

Result: U.S. auto parts exports rose 14 percent in the first six months of 1997, and the total for 1997 is expected to exceed $2 billion for the first time. This figure is nearly a 50-percent increase over 1995, the year the Automotive Agreement was signed. However, this growth is from a small base.

Criteria: Change in the purchase of U.S. auto parts by Japanese transplant vehicle manufacturers in the United States.

Result: Based on Japan Automobile Manufacturers Association data, U.S. auto parts purchases by Japanese transplants totaled $19 billion in JFY 1996, an increase of nearly 8 percent over the previous year. Of this total, 90 percent was for OE use. Moreover, the average parts purchased per unit produced in the United States grew 6.1 percent in JFY 1996, compared with a 3.7 percent growth the previous year.

Criteria: Efforts by Japanese vehicle manufacturers in Japan and their transplants to broaden sales opportunities for foreign suppliers.

Result: The Japanese auto manufacturers have made considerable headway in implementing the global business plans they announced at the time the Automotive Agreement was signed. In the United States, the automakers have boosted production of passenger cars, light trucks, and a range of components, including engines and transmissions. These production increases have and will continue to lead to new sales opportunities for U.S. suppliers and increased employment in the United States. For example, Toyota will begin production in 1998 at both its new engine plant in West Virginia and its new pickup truck assembly plant in Indiana. Nissan began production this year of the newly-designed Altima, the Frontier pickup truck, and engines in Tennessee. Honda North America increased production as well and is now producing domestically all of the new Accords sold in the United States.

Criteria: The status of Japanese Government deregulatory actions regarding the auto parts aftermarket.

Result: The Japanese Government has implemented only those deregulatory measures explicitly included in the Automotive Agreement. It has not pursued broad deregulation as a means of improving market access for competitive foreign auto parts suppliers, as it committed to under the Agreement. After undertaking a year-long study, it proposed deregulation of do-it-yourself repairs and legislation covering this change is currently awaiting Diet approval. Do-it-yourself repairs, however, are an extremely small segment of the auto parts aftermarket. The United States has strongly urged the Japanese Government to increase the scope and pace of its deregulatory actions, particularly the deregulation of additional critical parts.

Criteria: The responsiveness of the Government of Japan to complaints and requests regarding deregulation of the auto parts aftermarket.

Result: The Agreement created procedures under which foreign parts suppliers could request MOT review of specific regulations, most notably the disassembly repair requirements, or so-called "critical parts" list. The U.S. auto parts trade associations petitioned MOT three times for removal of brake system components from the critical parts requirements, most recently in September. The associations' petitions correctly argue that a "critical parts" designation discourages the use of imported parts and adds administrative burdens without providing a corresponding assurance of public safety. The associations assert, and the U.S. Government agrees, that brake repairs can be made with no adverse effect on safety as long as they are done by qualified mechanics. The trade associations also requested that MOT adopt a specialized automotive technician testing and certification system. Although the industry petition made a strong case for both of these measures and they were strongly supported by the Administration, as well as by the EU, Canada, and Australia, MOT has denied the brake petition and so far has not acted on adoption of a mechanic certification system. The Japanese Government has agreed, however, to hold hearings on the latter. In addition, it has made progress toward development of an online information network to provide Japanese garages with easily accessible, detailed information on foreign-made auto parts.

Overall Assessment

The Automotive Agreement has generated satisfactory results in some areas, but the U.S. Government is increasingly concerned about the lack of progress being made toward achieving many of the Agreement's key objectives. This concern has been heightened by several developments over the past year, including reversals in progress achieved under the Agreement

over the past year.

Given the Japanese Government's articulation of the importance of deregulation and further market opening to reviving the Japanese economy, the United States strongly urges Japan to take additional, concrete actions to ensure ongoing improvements in market access and sales opportunities in the Japanese automotive market. Prime Minister Hashimoto has publicly articulated the objective of "promoting strong, domestic demand-led growth in Japan and avoiding a significant increase in the external surplus." It is essential that Japan take seriously its responsibilities to generate domestic demand-led growth and open its markets to competitive goods and services from the United States and other countries.

The U.S. Government expects to work closely with the Japanese Government and U.S. industry on the commercial promotion proposals advanced by MITI over the past year to ensure such efforts are tailored to achieve maximum results. However, unless accompanied by substantial Japanese Government deregulatory and market opening efforts in the automotive sector, these promotion efforts alone are unlikely to be effective in helping to achieve the objectives of the Agreement.

The remainder of this report discusses in detail each section of the Agreement and assesses progress made in implementing the Agreement over the past year. The interagency monitoring team will continue to closely scrutinize implementation of the Agreement. The U.S. Government also will continue to strongly urge significant improvements in access to Japan's automotive distribution system and deregulation of the auto parts aftermarket. Future progress, particularly in terms of sales of autos and auto parts, will depend on market opening in these areas.

INTRODUCTION

The U.S. automotive vehicle and parts industry remains one of the most productive and competitive sectors of the economy. In recent years the industry has experienced strong sales, growing employment and record profits. Reflecting gains in both quality and productivity, export growth has been particularly strong, growing by 38 percent, from $47.3 billion in 1992 to $65.2 billion in 1996. During this same period, direct employment in both sectors increased by over 22 percent, from 978,000 jobs in 1992 to 1.2 million jobs in 1996.

The impressive resurgence of the automotive industry is attributable to the efforts of both management and labor. The industry has made significant investments in new plant and equipment, has restructured the relationship between parts suppliers and vehicle manufacturers, and has developed higher quality, more technologically advanced, and more globally competitive vehicles and components. These accomplishments have been fostered by a sound economic environment, with low inflation and interest rates, rising employment, and increasing household and business income.

The Clinton Administration has undertaken a number of specific initiatives to facilitate the current health and future expansion of the industry at home and its access to markets abroad. These efforts include the Partnership for a New Generation of Vehicles, an historic partnership between government and industry established to develop technologies for the next generation of affordable, fuel efficient and environmentally sound vehicles.

The Administration also has launched, sustained, or concluded numerous trade policy and promotion initiatives to tap the potential for competitive automotive exports by eliminating barriers and opening markets around the globe. For example, as a result of the September 1996 Super 301 annual review, the Administration initiated Section 301 and WTO enforcement actions against Indonesia and Brazil for certain aspects of their automotive policies, and against Australia for its export subsidies that adversely affect U.S. manufacturers of leather for automobiles. The U.S. Government continues to engage in bilateral consultations with the Governments of Australia, Brazil and Indonesia. In the September 1997 Super 301 annual review, the Administration identified Korea’s barriers to imported automobiles as a priority foreign country practice and initiated a section 301 investigation of Korea’s practices.

The Administration successfully sought inclusion of major market-opening provisions in the NAFTA and GATT/WTO agreements, and has strictly monitored our automotive trade agreements. In particular, as part of the U.S. Government’s strategic enforcement strategy for automotive trade, the Administration is closely monitoring our trade agreements with Japan and Korea, as well as China's automotive industrial policy and the consistency of India’s, Argentina’s, and Malaysia’s auto policies with the WTO agreement on trade-related investment measures (TRIMs).

Efforts have also been undertaken to develop international automotive standards/regulatory harmonization, in order to reduce barriers to trade and to improve global vehicle safety and environmental protection. Such discussions are occurring in several fora, including the Transatlantic Business Dialogue (TABD) via the United Nations Economic Commission for Europe Working Party 29 (UN/ECE WP 29), as well as the NAFTA Standards Council, and the Asia Pacific Economic Cooperation (APEC) Transportation Working Group.

A key element of U.S. trade policy has been to open the large Japanese automotive market. For three decades the United States has been denied full access to this market because of Japan's exclusionary vehicle distribution system and parts purchasing practices. These practices have been compounded by government regulations dealing with vehicle certification, inspection, and repair. The Clinton Administration sought to address these problems comprehensively through negotiations conducted under the auspices of the U.S.-Japan Framework for a New Economic Partnership agreed to in July 1993.

Following nearly two years of negotiations, the United States and Japan reached an historic and far reaching agreement covering all aspects of US-Japan automotive trade -- vehicles, auto parts, and Japanese Government regulation. The Agreement was formally signed on August 23, 1995. In order to ensure effective follow-up and evaluation of progress, the Agreement included 17 quantitative and qualitative objective criteria.

The United States achieved inclusion of its key objectives in the Agreement, including commitments by the Government of Japan to improve access for foreign vehicle manufacturers, expand opportunities for U.S. original equipment parts manufacturers in Japan and the United States, and eliminate regulations that restrict access for U.S. automotive parts suppliers to the Japanese repair market. In conjunction with the conclusion of the Agreement, the five major Japanese auto manufacturers also announced plans to increase purchases of foreign auto parts in Japan and to expand production of vehicles and major components in the United States. Following conclusion of the Agreement, the United States and Japan made a Joint Government Announcement and the United States announced its expectations of results involving dealerships, exports and the growth of parts purchases by the transplants.

On September 6, 1995, Ambassador Kantor and Secretary Brown launched a comprehensive program to monitor implementation and assess progress achieved under the Agreement. The Inter-Agency Enforcement Group, which was subsequently established to undertake this task, has since vigorously monitored compliance of the Agreement. Enforcement Group members have also met periodically with the Japanese automakers to review implementation of their voluntary business plans. The Group's first semiannual report was issued by President Clinton on April 12, 1996.

The Inter-Agency Enforcement Group is co-chaired by the Department of Commerce and the Office of the U.S. Trade Representative. The Group has met frequently with representatives of the U.S. automotive industry, labor and trade associations in compiling this report. Information and statistics used in the report were gathered from official U.S. Government sources including the Commerce Department's Census Bureau, Bureau of Economic Analysis, Office of Automotive Affairs, and Foreign Trade Zone Board, as well as the Customs Bureau, the Environmental Protection Agency, the Department of Transportation and the U.S. Embassy in Japan. Additional information was obtained from the Government of Japan, U.S. and Japanese automotive trade associations and from individual U.S. and Japanese companies.

This is the fourth report prepared by the Enforcement Team. It evaluates progress made since the Agreement was reached, with a focus on developments since the last report was released on April 18, 1997. The interagency group will continue to monitor compliance with the Agreement, and will release progress reports over the five-year term of the Agreement.

MOTOR VEHICLES

The Agreement includes three qualitative and two quantitative criteria pertaining to market access for motor vehicles. In addition to these criteria, the Agreement also contains four general qualitative criteria, which detail specific actions and plans intended to encourage imports and facilitate market access for foreign motor vehicle manufacturers in Japan. Regarding motor vehicles, the current review will focus primarily on the following major areas:

- Foreign access to Japan's auto sales network
- Sales of foreign motor vehicles in Japan
- Big Three sales efforts in Japan
- Efforts of the U.S. Government to support U.S. automakers' efforts to expand exports and enhance competitiveness

A brief review of other criteria and measures and an overall assessment of progress will follow the discussion of the areas listed above.

Foreign access to auto sales networks

A key measure of progress in expanding foreign automakers' direct access to existing auto distribution networks in Japan is the number of direct franchise agreements concluded between foreign vehicle manufacturers and Japanese dealers, and the resulting increase in the number of sales outlets for U.S. and other foreign automakers. Historically, auto dealers affiliated with Japanese vehicle manufacturers were reluctant to enter into direct franchise agreements with foreign vehicle manufacturers out of concern for damaging relations with their current Japanese supplier. Strong antitrust enforcement in the United States provides dealers with a reliable means of recourse, effectively eliminating these concerns for auto dealers in the United States.

The Big Three obtained 142 new outlets in Japan during the first two years of the Agreement. Ford has added 22 new outlets, GM 51 new outlets, and Chrysler 69 new outlets. This is an increase of 28 sales outlets since release of the last monitoring report on April 18, 1997. Between April and November 1997, GM obtained 16 new outlets, Chrysler 11 new outlets, and Ford, one new outlet. At present, Big Three motor vehicles are sold through a total of 753 sales outlets. There are approximately 16,200 sales outlets for motor vehicles throughout Japan. The overwhelming majority of these outlets are dedicated to sales of products produced by a single manufacturer.

To be successful over the long term in a mature, sophisticated market such as Japan, quality must be an overriding consideration in the companies' selection of sales outlets. Since the signing of the Agreement, the Big Three have signed franchise agreements with a relatively small number of sales outlets affiliated with the major Japanese automakers. Many more sales outlets have been obtained through alliances with independent companies, (i.e., auto importers, distributors and retailers not directly affiliated with any single auto manufacturer.) We believe increased

cooperation and involvement by Japan's major automakers would improve future results in this aspect of the Agreement. It would also be in the best interest of all parties. The signing of sales outlets affiliated with the major Japanese automakers will continue to receive close attention from the interagency enforcement team.

Foreign motor vehicle sales

Changes in the number of new foreign motor vehicles sold in Japan is the second key criteria by which progress in market access under the Agreement is assessed. Sales of foreign motor vehicles in Japan declined markedly during the period from January to September 1997, compared with sales in the same period of the previous year.

- Total sales of imported motor vehicles in Japan decreased 13 percent during the period from January to September 1997, compared with the same period in the previous year.

- Sales of Big Three (North American-sourced) motor vehicles decreased 20 percent during the first nine months of 1997, as compared with the same period in the previous year.

- Sales of cars built by the U.S. subsidiaries of Japanese automakers ("reverse imports") decreased 47 percent during the first nine months of 1997. A shift in the production of station wagons made by Honda and Toyota from the U.S. back to Japan and the prevailing currency valuations during the period are the main reasons for the large decline.

- Sales by the European automakers decreased 1 percent during the first nine months of 1997, as compared with the same period in the previous year.

The market as a whole (domestic and imported motor vehicle sales) declined 2 percent during the period.

TABLE 1: New Imported Motor Vehicle Registrations in Japan
Jan. - Sept. 1996 vs. 1997

	Jan. - Sept 1996	Jan. - Sept 1997	% Chg.
GM	32,220	27,330	(15)
Ford	13,840	8,049	(42)
Chrysler	12,524	11,214	(11)
Total Big Three	**58,584**	**46,593**	**(20)**
Honda	37,375	22,892	(39)
Toyota	16,820	3,334	(80)
Mitsubishi	979	555	(43)
Other	209	2,629	1,158
Total Non-Big Three (North America-Sourced)	**55,383**	**29,410**	**(47)**
Total North American-Sourced	**113,967**	**76,003**	**(33)**
UK	20,455	24,053	18
Germany	138,308	139,382	1
France	7,842	7,530	(4)
Italy	5,271	6,222	18
Sweden	19,517	15,669	(20)
Others	14,598	10,796	(26)
Total Non-US Sourced Imports	**205,991**	**203.652**	**(1)**
Total Imports	**319,958**	**279,655**	**(13)**
Total Registrations	**5,291,076**	**5,185,048**	**(2)**
Imports/Total Registrations	**6.1%**	**5.4%**	**n\a**
Big-3 (N.Am.Sourced) Market Share	1.1%	0.9%	n\a

Source: Data compiled by JAMA from the Japan Automobile Dealers Association and the Japan Automobile Importers' Association sources.

TABLE 2: New Imported Motor Vehicle Registrations in Japan
1992 - 1997*

	1992	1993	1994	1995	1996	*Annualized 1997*	96/97 % Chg**
GM	10,867	13,706	18,655	26,869	43,724	36,440	(17)
Ford	3,662	5,407	12,398	15,890	16,977	10,732	(37)
Chrysler	2,333	6,010	14,101	15,710	17,404	14,952	(14)
Total Big Three	**16,862**	**25,123**	**45,154**	**58,469**	**78,105**	**62,124**	**(20)**
Honda	19,835	26,880	47,296	50,694	47,893	30,523	(36)
Toyota	2,363	7,955	9,918	32,899	20,152	4,445	(78)
Mitsubishi	530	248	76	1,014	1,272	740	(42)
Other	267	83	105	156	261	3,505	1,243
Total Non-Big Three (North America-Sourced)	**22,995**	**35,166**	**57,395**	**84,763**	**69,578**	**39,213**	**(44)**
Total North American-Sourced	**39,857**	**60,289**	**102,549**	**143,232**	**147,683**	**101,337**	**(31)**
UK	14,961	17,560	23,219	30,138	30,852	32,071	4
Germany	104,993	98,177	121,388	156,766	184,516	185,843	1
France	7,909	5,840	6,861	9,265	10,502	10,040	(4)
Italy	4,573	4,565	4,529	5,273	7,059	8,269	17
Sweden	10,557	13,141	17,132	21,883	24,947	20,892	(16)
Others	1,765	1,909	25,713	21,605	21,937	14,395	(34)
Total Non-US Sourced Imports	**144,758**	**141,192**	**198,842**	**244,930**	**279,813**	**271,510**	**(3)**
Total Imports	**184,615**	**201,481**	**301,391**	**388,162**	**427,496**	**372,847**	**(13)**
Total Registrations	**6,959,073**	**6,467,279**	**6,526,696**	**6,865,034**	**7,081,218**	**6,913,397**	**(2)**
Imports/Total Registrations	**2.7%**	**3.1%**	**4.6%**	**5.7%**	**6.0%**	**5.4%**	**n/a**
Big-3 (N.Am.Sourced) Market Share	0.3%	0.4%	0.7%	0.9%	1.1%	0.9%	n/a

Source: Data compiled by JAMA from the Japan Automobile Dealers Association and the Japan Automobile Importers' Association sources.

* Annualized 1997 sales (estimated based on nine months of sales data.)
** Compares annualized 1997 sales (estimated based on nine months of sales data) with actual 1996 sales.

TABLE 3: Foreign Motor Vehicle Market Shares in Japan

	1994	1995	1996	1997*
Big Three (N. American sourced)	0.7%	0.9%	1.1%	0.9%
Japanese Transplants (from the U.S.)	0.9%	1.2%	1.0%	0.6%
European and Other	3.1%	3.6%	3.9%	3.9%
Total Import Market Share	4.6%	5.7%	6.0%	5.4%

Source: Data compiled by JAMA from the Japan Automobile Dealers Association and the Japan Automobile Importers' Association sources.
* Annualized shares based on first nine months of sales data.

A year-to-year comparison of import market shares (with 1997 shares estimated based on an annualization of nine month sales data) suggest that total import share in 1997 will fall well below the level achieved in 1996. Big Three (North American-sourced) import penetration in 1997 will fall to the 1995 level of 0.9 percent. European share will plateau in 1997 at 3.9 percent. The steep decline in the shipments to Japan of cars built by the U.S. subsidiaries of the Japanese automakers will result in the share of these products dropping well below 1 percent for the first time since 1994.

Efforts of foreign vehicle manufacturers to offer competitive products in Japan

The Big Three have moved aggressively in every important aspect of selling vehicles in Japan, including increased product offerings, recruitment of new dealers, and improvement of dealer networks and parts distribution systems.

In Japan, the Big Three currently offer 41 car lines (164 different models). Twenty-four of these car lines (116 different models), are available in right-hand-drive (RHD). These car lines cover all segments of the market, from large, luxury cars to compact cars, vans and trucks. The Big Three have followed through on their plans to offer more RHD cars. Ford sells RHD versions of the Explorer, Taurus and Mondeo, as well as several RHD Ford-badged models made by Mazda in Japan. GM is selling RHD Saturns and several RHD models made by its Opel subsidiary in Europe. GM also supplies Toyota with RHD Cavaliers. Chrysler sells RHD versions of the Neon, Cherokee Sport, Ltd., Grand Cherokee Laredo, Ltd., Voyager minivan and Jeep Wrangler.

On the strength of these new product offerings and upcoming introductions, the Big Three have mounted sustained campaigns to attract qualified, high-quality dealers. Some dealers who had no previous business contact with the Big Three are now seeking information about selling their products. Nevertheless, progress on actual sign-ups of new dealerships remains disappointing.

Finally, the Big Three are regularly obtaining type approval from the MOT for the models they sell in Japan, thereby avoiding volume restrictions and individual inspection requirements which are placed on vehicles certified under other MOT procedures. Obtaining type approval facilitates larger volume auto sales in Japan. The commitment of resources to obtain type approval is

another clear indication of the companies' long-term commitment to the Japanese market.

Ford

Ford Motor Company has moved aggressively in Japan over the past several years to establish a solid business foundation and increase the sales of Ford vehicles. Ford has worked hard to add dealers, bring new products into the market at competitive prices, increase consumer awareness of its products and improve the supply and distribution of replacement parts. During the first nine months of 1997, Ford sold 28,684 cars and trucks sourced from the U.S., the EU, and Japan, a decrease of 19 percent from the same period last year.

Even prior to the signing of the U.S.-Japan Automotive Framework Agreement, Ford was working to add dealers and sales outlets for its products. Since its signing, Ford has added four new Mazda-affiliated dealers with six outlets, two new Nissan-affiliated dealers with 10 sales outlets, and one Toyota-affiliated sales outlet. Ford of Japan now has 119 dealers in Japan with 307 sales outlets. This total includes one Toyota dealer with seven outlets, nine Nissan dealers with 22 outlets and 13 new Mazda dealers with 16 outlets that have been recruited within the past three years.

At present, Ford offers the Taurus, Explorer, Probe, Mondeo, Festiva, Festiva Mini-wagon, Laser, Telstar, Freda and Spectron with steering on the right side of the vehicle. Only the Lincoln Continental and the Mustang are offered with left-hand drive. More than 90 percent of Ford imports sold in Japan are right-hand-drive products. At the Tokyo Motor Show, Ford introduced two new-to-Japan products, the Galaxy minivan and the Ka -- both in right-hand-drive.

Ford has taken steps to strengthen its distribution company, Autorama, which has changed its name to Ford Sales Japan, Inc. (FSJ), to improve support for Ford dealers throughout Japan and to strengthen the company's brand identity in Japan. Using intensive advertising both in newspapers and on TV, Ford has pursued a vigorous marketing strategy to demonstrate the value of its products to the Japanese consumer. Ford also has maintained a pricing policy of selling import vehicles at prices competitive with Japanese domestic vehicles, despite the continued weakening of the yen.

Ford's Automotive Component Division launched its new marketing identity, Visteon, in September 1997 to strengthen its commitment to the automotive supplier market. Ford's Automotive Component Division has had success selling quality products in Japan to Japanese manufacturers, including speed-control systems to Toyota, instrument clusters to Honda, audio systems to Nissan and components ranging from engine controls to climate control systems to Mazda. Presently, total annual sales to the Japanese manufacturers are about $300 million, and plans are to double that sales volume to $600 million by the year 2000. Opportunities to bid on parts and components projects have increased since the signing of the Agreement.

To improve its commitment to service and in supplying parts to its dealers and increase its competitiveness with Japanese domestic manufacturers, Ford has undertaken a number of new initiatives. Changes to improve the distribution of replacement parts include taking orders from and shipping parts to dealers on Saturdays, implementing a "twice-a-day" delivery system in metropolitan areas, and delivering replacement parts to Ford dealers no later than the morning after the day the order is received.

Ford of Japan acts as importer of record for its vehicles in Japan, and distributes most vehicles through its Ford Sales Japan network. Since the signing of the Agreement, Ford has established a new product distribution and inspection (PDI) facility at Nissan's Zama City plant in Kanagawa Prefecture to minimize the still significant costs associated with importing vehicles into Japan. Ford invested more than $40 million to open a new technical research laboratory in March 1996 in Yokohama, Ford's second research facility in Japan.

Ford has also established a financing subsidiary in Japan. Ford Credit Japan was established in June 1994 to offer competitive wholesale and retail financing packages, both on term and interest rates. Presently, Ford Credit Japan provides wholesale financing for Ford vehicles at Ford dealers and retail support to those dealers in Japan.

Chrysler

Chrysler Corporation has stepped-up efforts in Japan over the past year, both in terms of sales and marketing, and recruitment of dealers for new outlets for Chrysler vehicles. Just prior to completion of the U.S.-Japan Automotive Framework Agreement, Chrysler spent $100 million for a controlling interest in its jointly-owned Japanese distribution company, Chrysler Japan Sales Limited, (CJSL), in order to improve distribution of Chrysler products in Japan. As a result of this action, the number of Chrysler employees in Japan increased from approximately 50 people to its current level of approximately 350 people. As part of the acquisition, CJSL purchased Seibu Motor Sales Company, the retail arm of J. Osawa & Company, Ltd. of Japan.

Dealer recruitment is a main focus of Chrysler in Japan. Under a new dealer development system, Chrysler will appoint one "main dealer" in each of Japan's prefectures. Each "main dealer" will be responsible for vehicle sales, local marketing, logistics, services and parts support in a specific prefecture, as well as the expansion of sales outlets in the territory. The first CJSL "main dealer" in Japan, Niigata Chrysler, Ltd., was signed in November 1995. Since September 1, 1995, Chrysler has contacted over 200 dealer candidates regarding the sale of Chrysler products.

Chrysler has signed 22 "main dealers" and opened 23 exclusive showrooms in the past two years. These dealers have ten additional exclusive outlets scheduled to open in 1998. Chrysler currently has two Mitsubishi-affiliated dealers with two outlets, two Daihatsu-affiliated dealers with two outlets, one Mazda- affiliated dealer with three outlets, one Nissan-affiliated dealer with one outlet, one Honda affiliated-dealer with one outlet, one Fuji Heavy Industry-affiliated dealer with one outlet and one Suzuki-affiliated dealer. Other than the exclusive showrooms, main dealers

may have outlets and subdealers selling multiple brands. Chrysler also contracts with 42 current dealers with 47 outlets which are counted in its total of approximately 120 showrooms.

In September, Chrysler and Honda jointly announced that they were discontinuing their seven-year agreement under which Honda dealerships handled Jeep vehicles. Chrysler intends to reestablish relations with selected Honda dealers to offer them rights to sell the full line of Chrysler products through direct franchise agreements. Honda has agreed not to intervene between the dealers and Chrysler. Chrysler is hopeful that the recent announcement ending the this distribution agreement will result in greater opportunity for dealer recruitment by providing Chrysler dealers with exclusive rights to all Chrysler products.

Chrysler now sells five RHD vehicles in Japan: Jeep Wrangler, Jeep Cherokee, Jeep Grand Cherokee, Chrysler Neon and Chrysler Voyager. The RHD Grand Cherokee arrived in Japanese showrooms in 1996. In June 1996, Chrysler began selling its RHD Neon, and its RHD Jeep Wrangler debuted in November 1996. The RHD Chrysler Voyager minivan entered the market in April 1997. The RHD Jeep Cherokee has been sold in Japan since 1993. In May 1997, the Cherokee received a substantial freshening. Development of these RHD vehicles required an investment of more than $200 million by Chrysler Corporation.

To expedite delivery of vehicles and parts, CJSL established a new $10 million center for parts distribution and vehicle preparation in Sagamihara City, Kanagawa Prefecture in March 1996. The Kanagawa parts supply depot in Japan will enable 90 percent of all service parts to be delivered to dealers within 24 hours. Moreover, Chrysler has reduced its prices for service parts and vehicles to enhance the competitiveness of its products.

Finally, Chrysler is leasing part of a plant owned by Shin Caterpillar Mitsubishi as a pre-delivery inspection (PDI) facility. By leasing facilities rather than constructing and equipping a new PDI site, Chrysler was able to significantly reduce its investment costs. The center is equipped to handle 3,000 vehicles a month, up from 500 a month at Chrysler's prior PDI facility in Yokohama. In addition, a regional parts distribution warehouse has been established in Singapore to support the PDI center and parts supply depot in Japan.

General Motors

General Motors led all other foreign vehicle manufacturers in sales in 1996 with 82,964 (43,724 U.S.-built, including 11,467 Cavaliers supplied to Toyota, and 39,240 European-built) cars and trucks sold in Japan. This was the fourth consecutive year General Motors led all other foreign-based vehicle manufacturers in sales in Japan. General Motors Japan began selling its Saturn on in early April through 11 dealers offering RHD sedans, coupes, and wagons. The Saturn retail franchise has been developed through extensive consumer research adapting key elements of the innovative U.S. retail franchise. To convey the Saturn concept to Japanese consumers, all dealer employees are receiving a full complement of training at the newly established Saturn Training Center in Tokyo.

Opel has enjoyed notable sales volume: 38,339 Opels sold in 1996, approximately 80 percent in RHD. The new RHD Opel Vectra wagon went on sale in the Spring of 1997 and GM introduced a RHD version of the Cadillac Seville at the recent Tokyo Motor Show. Retail sales of the RHD Seville will start in February 1998.

The U.S.-built RHD Cavalier marketed by Toyota recorded 11,467 unit sales in 1996. Toyota has devoted significant promotion and marketing resources to achieve these sales results. Saab (owned 50 percent by GM) officially placed all import and distribution activities for its autos with General Motors Japan effective October 1, 1996, following termination of its agreement with another distributor.

General Motors Japan's retail strategy continues to be based on its 82-year relationship with Yanase, Japan's largest importer of foreign motor vehicles. Yanase markets Chevrolet, Cadillac, Saab and Opel products. (Following transfer of Saab's import and distribution activities for its autos to General Motors Japan in October 1996, Saab's importer/distributorship was subsequently transferred to Yanase, effective July 1, 1997.) In addition, General Motors has been aggressively developing its own dealer network for Saturn, which now has a total of 15 dealers operating 15 sales outlets, and is actively recruiting additional candidates. Six of the Saturn dealers also sell domestic Japanese brands, including Nissan, Honda, Isuzu and Daihatsu. (These six dealers account for a total of six sales outlets.) The company has established its Vehicle Processing Center at Press Kogyo Co., Ltd. to support Saturn.

General Motors Japan has increased employment to 393 people currently, up from 140 people in 1992.

U.S. Government support for U.S. automakers' efforts to expand their exports and enhance their competitiveness

Under the Agreement, the U.S. Government agreed to support the export of U.S. motor vehicles to Japan. In support of this provision, the U.S. Government regularly promotes increased U.S. participation in trade shows through a number of programs and agency activities. In addition, Department of Commerce staff provided pre-show and on-site guidance to the U.S. Pavilion at the Tokyo Motor Show, held on October 24-November 5, 1997.

Overview of other criteria and measures

We note that progress under several of the other criteria and measures is on track. Cooperative supply and distribution arrangements between Ford and Mazda and between GM and Toyota are continuing. In September, Chrysler and Honda jointly announced that they were discontinuing their seven-year agreement under which Honda dealerships handled Jeep vehicles. Chrysler intends to reestablish relations with selected Honda dealers to offer them rights to sell the full line of Chrysler products through direct franchise agreements. Honda has agreed not to intervene between the dealers and Chrysler. We will be following developments in this area closely. The

Big Three have reported no problems with respect to obtaining access to Japanese owner registration data, and the Japanese Government continues to provide support for the sales of foreign motor vehicles in Japan through JETRO and other Japanese Government organizations, as called for in the Agreement. There are no new developments to report concerning the functioning of the Motor Vehicle Dealership Market Access Plan. Finally, Japanese Government procedures in the area of motor vehicle standards and certification, as they pertain to this part of the Agreement, are satisfactory.

Assessment of progress

Overall, actual results in the market fall well below our expectations at this stage of implementation of the Agreement with respect to both distribution and vehicle sales. Regarding distribution, the progress achieved to date suggests that the relationship Japanese vehicle manufacturers have with their affiliated dealers continues to be an obstacle to improving market access for foreign automakers in Japan. We appreciate the pledges of non-interference from Japanese auto executives at the high-levels, but are still concerned about whether the message is being effectively communicated from the senior levels to employees throughout the Japanese auto companies and to their affiliated dealers. Shortly after the U.S.-Japan annual consultations in San Francisco, Japanese Government officials communicated these specific concerns to Japanese industry. We recognize that certain business practices in Japan tend to lengthen the time required to build business relationships, and that the screening of dealers to identify only those with the necessary qualifications adds to the time required to build a quality sales network. However, even taking these factors into account, progress under the Agreement is not being fully realized.

In our earlier reports we noted that sales growth by the Big Three and other foreign automakers cannot be sustained if development of an underlying sales network is constrained. We believe that some of the recent erosion in sales among import automakers is closely related to their lack of full access to the auto distribution network in Japan. At the time the Agreement was concluded, the American Automobile Manufacturers Association (AAMA) member companies, Chrysler, Ford and General Motors announced, with U.S. Government support, their expectation to add 200 new outlets by the end of 1996, and at least 1,000 additional outlets by the end of the decade. The Interagency Enforcement Team will continue to pay close attention to progress in this area of the Agreement.

Our assessment of foreign motor vehicle sales at this point in the Agreement is equally disappointing. The reasons underlying the significant erosion in the sales of imported motor vehicles over the course of this year suggest distinctly negative implications for the future prospects of all foreign automakers in Japan. They casts doubt on the ability of this Agreement to attain its full and intended purpose in the market. While a general recovery in domestic Japanese demand could reignite sales growth for all automakers, the timing of such a recovery in the automotive sector is uncertain.

The U.S. Government expects to work closely with the Japanese Government and U.S.industry

on the commercial promotion proposals advanced by MITI over the past year to ensure such efforts are tailored to achieve maximum results. However, unless accompanied by substantial Japanese Government deregulatory and market opening efforts in the automotive sector, these promotion efforts alone are unlikely to be effective in helping to achieve the objectives of the Agreement.

ORIGINAL EQUIPMENT PARTS

Sales of U.S. auto parts in Japan and to Japanese auto manufacturers

Three primary sources for tracking Japanese purchases of foreign-produced automotive parts are used in this analysis: U.S. Census Bureau export statistics, Japan Automobile Manufacturers Association (JAMA) data on parts purchases by the 11 JAMA members in Japan, and Japanese Ministry of Finance (MOF) import statistics. (See Appendix B for an explanation of JAMA data.)

In theory, MOF import and Census export data should be equivalent. However, due to different reporting methods, time lags, and differences in commodity definitions, the two sets of data differ in value. Even though each set of data differs, all three (including JAMA) indicate an upward trend in purchases by Japanese vehicle manufacturers.

U.S. Census Bureau data (Table 4) show that U.S. automotive parts exports to Japan grew at an average annual rate of 17.3 percent from 1992 to 1996 (nearly doubling in value), from slightly over $1 billion to $1.97 billion. For the first six months of 1997, U.S. exports of parts to Japan were up almost 14 percent over the same period in 1996, and the total for 1997 is estimated to exceed $2.0 billion for the first time. At the same time, U.S. imports from Japan declined 13.0 percent during the first six months of 1997 compared with the same period in 1996. Thus, the data suggests that as the Japanese transplants increased production in the U.S., they have further increased their purchases of U.S.-made parts while importing fewer parts from Japan for original equipment (OE) use. (See Tables 5, 7, 8, and 9)

TABLE 4: U.S. Imports and Exports of Automotive Parts to Japan

						92-96	January-June		
	1992	1993	1994	1995	1996	%CAGR*	1996	1997	%Chg
U.S. Imports	10.82	12.34	14.36	14.66	13.41	5.51	7.09	6.17	-13.0
U.S. Exports	1.04	1.13	1.49	1.64	1.97	17.32	0.95	1.08	13.7

In billions of dollars, f.o.b.
* Percent change in annual growth.
Source: U.S. Census Bureau

JAMA data (Table 5) reveal that U.S. automotive parts purchases by Japanese automakers for use in Japan grew from $2.4 billion in Japan fiscal year (JFY) 1992 to $ 3.69 billion in JFY1996, and increased over 9 percent in JFY1996 from the previous fiscal year.

TABLE 5: Japanese Purchases of U.S. Automotive Parts

	JFY92	JFY93	JFY94	JFY95	JFY96	95-96 % Chg
TOTAL	**13.62**	**15.54**	**19.86**	**21.03**	**22.74**	**8.12%**
For U.S. Use	**11.20**	**12.90**	**16.63**	**17.66**	**19.05**	**7.91%**
-- Of which OE				16.40	17.17	4.70%
-- Of which OES				1.26	1.88	49.77%
Exported to Japan	**2.40**	**2.60**	**3.23**	**3.38**	**3.69**	**9.20%**
-- Of which OE				3.25	3.53	8.46%
-- Of which OES				0.12	0.16	28.56%
CATEGORY						
Engine parts	1.64	1.63	2.19	2.36	2.76	16.57%
Chassis parts	2.14	2.62	3.57	3.75	4.03	7.68%
Body parts	5.19	5.83	7.26	7.65	7.75	1.37%
Electrical parts	3.14	3.43	4.37	4.66	5.18	11.14%
Accessories	0.28	0.56	0.66	0.79	1.27	60.73%
Materials	1.22	1.47	1.80	1.82	1.74	-4.19%

In billions of dollars.
Source: JAMA
Table entries may not reflect percentages due to rounding.

The data show that Japanese transplant automakers purchased $19.1 billion worth of U.S. automotive parts in JFY1996, growing at an average annual rate of 14 percent since JFY1992. However, the JFY1995-96 increase of 8 percent indicates a considerable slowing in the rate of increase, which averaged almost 23 percent annually between JFY1992 and JFY1994. The decrease in the growth rate of purchases reflects a decline in the growth of Japanese transplant vehicle production in the U.S.

The $19.1 billion in purchases for transplant use in JFY1996 includes both OE and original equipment service (OES or aftermarket) purchases. The first year JAMA provided a breakout of these purchases for OE and OES was for JFY1995 when the data showed OES purchases of $1.26 billion. These data revealed that of the JFY1995 total of $17.7 billion, $16.4 billion, or 93 percent, was for OE use, while $1.3 billion, or 7 percent, was for OES use. By comparison, JFY1996 data show $17.2 billion, or 90 percent, was for OE use, while the other 10 percent was used for OE service. OES purchases are expected to grow faster in the future as the U.S. fleet of Japanese transplant vehicles increases.

Japanese MOF data (Table 6) show that Japanese imports of automotive parts from the world rose from $2.8 billion in 1993 to an estimated $4.6 billion in 1997, averaging an annual growth rate of slightly under 13 percent. For the first time, the largest portion of imports, 38.5 percent, was shipped from East Asian countries. Until this year, exports from North America (the United States, Canada, and Mexico) accounted for the largest portion; however, the North American share dropped to second place in 1997, or 37.7 percent. It should be noted that Japanese imports of U.S. automotive parts grew only 5.4 percent during 1997 compared with 1996 levels -- a decline in the average 1992-1995 growth rate of 14 percent.

TABLE 6: Japanese Imports of Automotive Parts from Selected Countries

	1993	1994	1995	1996	1997*	Average Annual % Chg	96/97 % Chg
WORLD	**2,822.0**	**3,191.0**	**3,884.8**	**4,256.4**	**4,558.2**	**12.7%**	**7.1%**
North America	**1,168.3**	**1,406.5**	**1,538.8**	**1,606.5**	**1,717.8**	**10.1%**	**6.9%**
-- U.S.	1,107.2	1,339.0	1,493.2	1,530.7	1,613.6	9.9%	5.4%
-- Canada	51.5	58.0	38.1	60.8	83.4	12.8%	37.2%
-- Mexico	7.6	8.7	6.9	15.0	20.8	28.6%	38.7%
Select EU (1)	**621.9**	**654.1**	**817.0**	**902.6**	**913.0**	**10.1%**	**1.2%**
-- Germany	323.5	341.4	425.4	470.5	464.4	9.5%	-1.3%
-- U.K.	71.0	79.5	99.7	138.9	152.6	21.1%	9.9%
-- Italy	114.1	110.9	135.8	121.7	130.0	3.3%	6.8%
Select E. Asia (2)	**839.6**	**940.2**	**1,336.2**	**1,576.0**	**1,755.4**	**20.2%**	**11.4%**
-- ASEAN	355.8	410.8	626.3	730.9	875.0	25.2%	19.7%
-- Australia	142.6	132.2	143.8	123.6	133.6	-1.6%	8.1%
-- China	43.0	79.2	142.9	271.5	320.4	65.2%	18.1%
-- Taiwan	151.3	154.0	205.6	241.3	238.4	12.0%	-1.2%
S. Korea	126.6	141.5	170.4	159.4	153.6	5.0%	-3.6%

In millions of dollars, c.i.f.
*Estimated using January-June 1997 Ministry of Finance data.
1) Total includes listed countries, plus France, Spain, and Benelux.
2) Total includes listed countries, plus Hong Kong and New Zealand. (For the purpose of this table, Australia and New Zealand are included as “East Asian”.) ASEAN total excludes Brunei and Vietnam.
Source: Japanese Ministry of Finance

An analysis of Japanese import data for individual countries reveals that:

- Japan's imports of automotive parts from the United States rose at an average annual rate of 9.9 percent during 1993-97, but increased by only 5.4 percent from 1996 to 1997.

- Japan's automotive parts imports from the EU grew from $622 million in 1993 to $913 million in 1997, realizing an average annual growth rate of almost 10.1 percent. The 1996-1997 rate of growth, however, dropped to only 1.2 percent.

- Japanese imports of automotive parts from Canada increased from $51.5 million in 1993 to $83.4 million in 1997, realizing an annual growth rate of almost 13 percent. Imports increased by 37 percent from 1996 to 1997.

- Japan's imports of Australian automotive parts declined 6.3 percent from 1993 to 1997, but increased 8.1 percent from 1996 to 1997.

- Japan's imports of automotive parts from selected East Asian countries (including Australia, China, Taiwan, South Korea, and the ASEAN countries) grew at an average annual rate of over 20 percent from 1993 to 1997, increasing from $840 million to $1.76 billion. While imports from South Korea and Taiwan fell 1.2 percent and 3.6 percent, respectively, last year when compared with the previous year, parts imports from the ASEAN countries and China continued to grow at a rapid rate. Many experts believe that most of the parts imported from the ASEAN countries and China were from Japanese-owned/joint venture facilities, although specific data on imports by capital affiliation are not available.

U.S. content levels in Japanese transplant vehicles

There are three sources of data that can be used in measuring the change in the extent of local parts sourcing by Japanese transplant vehicle manufacturers in the United States: the American Automobile Labeling Act (AALA), Foreign Trade Zone (FTZ) , and JAMA. (See Appendix B for explanations of AALA and FTZ data.) Each measures content on a different basis, but over time each should show a similar trend.

AALA data (Table 7) indicate that Japanese transplant levels of U.S./Canadian content have increased significantly from model year 1995 to model year 1997 (through August 1, 1997), from 47.6 percent to 53.0 percent, despite a slight drop in model year 1997 from model year 1996 figures. However, some of this decline is the result of changes to regulatory procedures that produced changes in the automakers' content accounting methodology between model year 1996 and model year 1997.

TABLE 7: AALA Domestic Content Levels
Percent by Model Year

	1995	1996	1997
WTD AV*	47.6%	54.4%	53.0%
Toyota	25-60%	45-60%	45-55%
Nissan	30-45%	30-45%	40-45%
Honda	45-50%	65-70%	60-65%
Mitsubishi	46-72%	45-71%	45-56%
Subaru	35%	40%	40%
Isuzu	35%	40%	40%
Mazda	60-65%	60-65%	65%

Source: National Highway Traffic Safety Administration
MY 1997 revised 9-23-97.
*Weighted average calculations include averaging both North American-built and foreign-built vehicles of the same carline.

FTZ data (Table 8) indicate that the domestic content of transplant vehicles grew from 57.1 percent in United States fiscal year (FY) 1992 to 61.8 percent in FY96. The table also shows that the value of domestic purchases by the seven Japanese transplant automakers increased by 84.4 percent from FY1992 to FY1996, from $9.0 billion to nearly $16.6 billion.

TABLE 8: Domestic and Foreign Purchases by Japanese Automakers in Foreign Trade Zones

Year	Domestic Purchases	Foreign	Total	Domestic Purchases As share of Total
1993	10,356	7,748	18,104	57.2%
1994	12,971	9,534	22,505	57.6%
1995	15,651	10,699	26,350	59.4%
1996	16,573	10,251	26,826	61.8%

In millions of dollars.
Data is for U.S. fiscal year (October-September)
Source: Foreign Trade Zones Board Annual Reports

JAMA data, when combined with transplant production statistics (Table 9), reveal that the value of U.S.-made parts per transplant-produced vehicle has increased almost 29 percent from $6,360 per vehicle in JFY1992 to $8,184 per vehicle during JFY1996. For JFY1996, the U.S. value of parts per transplant vehicle produced increased 6.1 percent compared with the same period in JFY1995. As mentioned previously, JAMA did not break out OES data from total purchases prior to JFY1995. If OES is subtracted from the total purchases by Japanese vehicle manufacturers, the U.S. parts purchases per transplant-produced vehicle were $6,918 for JFY1995 and $7,376 for JFY1996, an increase of 6.6 percent.

TABLE 9: U.S. Parts Purchases per Transplant-Produced Vehicle

YEAR	Transplant Production		U.S. Parts Purchases		Purchases Per Unit	
	Units	% Chg	$ billions	% Chg	$	% Chg
1992	1,760,999	--	11.2	--	$6,360.0	--
1993	1,868,794	6.12%	12.9	15.18%	$6,902.8	8.53%
1994	2,236,245	19.66%	16.63	28.91%	$7,436.6	7.73%
1995	2,289,119	2.36%	17.66	6.19%	$7,714.8	3.74%
1996	2,327,702	1.69%	19.05	7.87%	$8,184.0	6.08%

Source: JAMA
Annual data are Japanese Fiscal Year, April-March
Data include both OE and OES purchases.

Efforts by Japanese vehicle manufacturers in Japan and their U.S. transplants to broaden U.S. suppliers' opportunities

Efforts by Japanese automakers are documented in the global business plans announced by the five major Japanese vehicle manufacturers on June 28, 1995. These business plans detail their efforts and actions to expand vehicle production and parts procurement overseas, and provide a comprehensive description of the manufacturers' efforts to expand sales opportunities for new suppliers. Since the plans were issued, individual automakers have made additional specific announcements concerning their global operations.

Recent actions taken by the five major Japanese auto companies are summarized below:

Toyota

- Vehicle production: Production at Toyota's Georgetown, Kentucky assembly plant increased by 9 percent in the first half of 1997 compared with the same period in 1996. Total first half 1997 North American production increased by 6 percent.

- Engine production: Work on the new engine plant in Buffalo, West Virginia is continuing on schedule with production to begin in 1998.

- Toyota will begin U.S. manufacturing of about 600 small and mid-sized stampings, currently produced in Japan, with an $11 million expansion of its Kentucky stamping line by 1998.

- Toyota exported 59,000 vehicles from the U.S. in 1996, and 23,000 vehicles in the first six months of 1997.

- The new plant for assembling pickup trucks in Indiana is on schedule to begin production by the end of 1998.

Nissan

- Nissan's U.S. vehicle production increased from almost 244,000 units in 1989 to more than 400,000 in 1996, while exports from the U.S. increased from less than 4,000 units in 1990 to almost 19,000 vehicles in 1996.

- U.S. production of a newly designed MY98 Altima started in July, 1997, with local sourcing increasing from 70 percent in the previous model to 78 percent in the MY98 (using Environmental Protection Agency (EPA) measurement).

- Engine and transmission production: During 1996, Nissan built a $30 million engine assembly plant in Decherd, Tennessee. The first engines were produced in May, 1997, with an expected annual output of 200,000 units. These engines will be used in the Altima built in Smyrna, Tennessee. In addition, the transmission and transaxle production line at Decherd is scheduled to begin production in March, 1998, with production reaching 300,000 units per year. The engines will replace those currently imported from a Nissan plant in Mexico, and the transmissions/transaxles will replace imports from Japan.

- New pickup truck (Frontier) production began in September, 1997.

Honda

- North American vehicle production was up 18.2 percent for the fiscal year ended March 31, 1997 compared with the previous fiscal year.

- MY98 Accords built in Marysville, Ohio are to be sold in the North American market only. Thus, no Accords will be imported into the United States from Japan, nor will any Accords now be exported to Japan.

- Engine production: Production of an all-new V-6 engine for the new Acura CL at Honda's Anna, Ohio, engine plant began in 1996. In preparation for production of the new engine, the engine plant underwent a $200 million expansion. Honda announced plans to increase engine capacity to 900,000 by 1998, making it the largest source of Honda engines in the world. Honda produced 755,571 engines at its Anna, Ohio plant in the fiscal year ended March 31, 1997, up 18.1 percent over the previous fiscal year.

- Transmission production: Honda announced in May 1996 the expansion of U.S. automatic transmission production to 650,000 from 380,000 units.

Mitsubishi

- Vehicle production: Mitsubishi produced 131,572 vehicles at its Normal, Illinois plant during the first eight months of 1997, an increase of 5 percent over the same period last year.

- Local procurement: Mitsubishi is in the process of increasing the number of parts and components procured locally, including engine components, and substituting parts and components currently exported from Japan with locally procured parts. Purchases of U.S.-made parts by Mitsubishi for use by the U.S. production plant for 1997 are forecasted at $1.7 billion.

Mazda

- Since Ford announced its increased ownership in Mazda in April, 1996, both companies have been discussing ways to increase their competitiveness by coordinating their worldwide strategies.

- AutoAlliance in Flat Rock, Michigan (a joint production facility owned by Ford and Mazda) began production of the first Mazda 626 specifically designed for the U.S. market in September, 1997. This facility will also be the sole manufacturing plant for Ford's new Mercury Cougar.

- Mazda exported 7,674 vehicles assembled in the AutoAlliance plant during the first eight months of 1997.

- Local procurement: Mazda is expanding U.S. sourcing of parts, including major components such as transmissions. The company is strengthening contact points for potential suppliers and augmenting its data base of potential suppliers to promote design-in activities.

Some examples of U.S. and foreign auto parts suppliers' efforts are detailed below:

- **Dana Corporation** has continued to build upon its existing relationships with Japanese vehicle manufacturers with recent announcements to expand sales to both Toyota and Isuzu. Dana's Engine Products Group facility in Richmond, Indiana began supplying as many as one million cylinder liners annually to Toyota's Georgetown, Kentucky facility for its 3-liter "1MZ" V6 engine, beginning at the end of April 1997. The agreement represents one of Toyota's largest purchases of U.S.-made engine components for mass production purposes.

  In addition, Dana Corporation's Spicer Axle Division in Columbia, Missouri, became the newly selected supplier of rear axles for the 1998 Isuzu Trooper/Big Horn and Acura SLX which will be built in Japan. Production began in June 1997 with annual volumes forecasted to be 65,000 units. This will be the first time the division will be manufacturing axles for export to Japan. Once the axles arrive in Japan, Dana's Japanese affiliate, Najico Spicer Company, Ltd., inspects the axles which are then delivered to Isuzu on a just-in-time basis. Spicer Axle already supplies 100 percent of the front and rear axles for the U.S.-built Isuzu Rodeo and Honda Passport.

- After determining that access to the Japanese aftermarket was improving, approximately a year and a half ago, **Moog Automotive**, a subsidiary of Cooper Automotive, invested in engineering and marketing in order to customize their brake-line replacement parts to Japanese standards and specifications. Moog Automotive has since doubled its shipments of brake-line replacement parts to Japan.

- Beginning in March 1998, **Eagle Picher** will supply 300,000 oil pumps a year to Nissan's

engine plant in Decherd, Tennessee. Eagle Picher will construct a new plant and will purchase machinery currently being used by a Nissan parts plant in Japan. The pumps will be used in the automatic transmissions for Nissan's U.S. produced models such as the Altima, as well as in the automatic transmissions that Nissan supplies to Ford Motor Company.

- Under a five-year plan beginning in 1997, **Delphi Automotive Systems** is increasing its efforts to target sales to the Japanese automakers by aiming to raise its sales to $1.5 billion dollars per year, an increase of 50 percent from FY1996. To help achieve this goal, Delphi intends to: improve its response capabilities in development and design, enhance its cooperative relations with Japanese parts makers, continue its significant, growing supply of engine control software for Isuzu's diesel engines, as well as greatly increase its investment to update and improve its Asia Technical Center in Tokyo, which is the center of its development and testing of parts for Japanese cars.

- **Visteon Automotive Systems** plans to quadruple its annual sales volume of auto parts in Japan to $400 million in five years. The company is currently conducting negotiations with major Japanese automakers who are looking for power train control systems, including those for fuel supplies, electronic controls, measuring instruments, and car audio. Visteon's strengths are their development and manufacturing network and their ability to produce parts close to their customers' overseas plants.

- The sales organization of **Textron Automotive's CWC Castings Division** made its initial visits to Honda's purchasing group over ten years ago. After persistent efforts and an eventual site visit in 1994, CWC was able to work together with Honda in developing the camshaft for Honda's VN-V6 engine for use in the 1997 Acura CL, which began production last year. CWC's business with Honda is progressing. For the 1998 model-year, Honda will increase their sourcing from CWC since the engine will also be used in the Accord. In addition, future engine variations and utilization in the Acura 4-door and a new mini-van will further increase CWC's volumes in the 1999 model year, with some of the 1999 increases being exported to Japan.

  CWC also has received production sourcing for the majority of Toyota's Georgetown, Kentucky engine plant's camshaft requirements for the 3.0L V6 Camry engine. This production is scheduled to start the first quarter of 1998.

- **United Technologies Automotive** (UTA) was one of 34 U.S. suppliers involved in the 1998 Accord design-in. UTA introduced a multiplex data bus for the 1998 Accord that uses three control modules, rather than the five on the 1994 Accord. The system operates many devices, including window switches and door locks, eliminating 20 electrical paths through the car. In order to collaborate closely with Honda, UTA was successful in adjusting to the Japanese way of continuous improvement and translating Japanese specifications.

Last June, UTA's electronics plant in Tampa received a supplier award for outstanding achievement in productivity improvement from Honda of America Manufacturing. UTA had consistently exceeded Honda's productivity expectations for automatic door lock control units for its Marysville and East Liberty, Ohio auto plants.

- The U.S.-U.K. joint venture of **Lucas Battery** will supply an anti-lock brake system to Isuzu Motors, Ltd. for use in its 1998 offroad vehicles produced in the United States.

U.S. Government actions to help U.S. parts industry

Since the signing of the Agreement, the U.S. Government has developed trade promotion programs to further implement the Agreement, including promoting through industry-organized trade missions to Japan and reverse trade missions from Japan to the United States. Administration officials also continue to speak about the opportunities provided by the Agreement at various U.S. automotive industry events, such as the Automotive Aftermarket Industry Week (AAIW), the largest automotive parts show in the United States, and other appropriate industry events. The U.S. Government and the four auto parts trade associations organized two "break-out" sessions for the 1997 AAIW show in which TACTI (a Toyota-controlled parts aftermarket company) representatives and the President of Autobacs (major Japanese aftermarket parts retailers) will discuss their organization and purchasing processes for aftermarket products.

The Agreement also calls for the U.S. Government to provide support to U.S. auto parts suppliers and related organizations in their activities to promote the sale of U.S. auto parts to Japanese automakers in the United States, as well as in Japan. To this end, the Department of Commerce--with the help of the U.S. Automotive Parts Advisory Committee (APAC), which is the federal advisory committee established to advise the Department of Commerce on U.S.-Japan automotive parts issues -- developed two programs: the "One Stop Shop" service and the Automotive Parts Industry Outreach Program.

The "One Stop Shop" service provides U.S. industry with a single contact point -- the Department of Commerce's Auto Parts & Suppliers Division -- to assist U.S. automotive companies in their efforts to develop business relations with Japanese automotive companies. U.S. suppliers have received business counseling on selling to the Japanese automotive industry and have been provided a list of appropriate purchasing contacts for the Japanese automakers and parts manufacturers. A detailed "One Stop Shop Action Plan" has been developed specifically to designate on-going industry support activities. This Plan is modified as conditions within the industry and program priorities warrant.

The Automotive Parts Industry Outreach Program provides services designed to create ongoing, informal fora in which communication between U.S. and Japanese companies is presented. Initially, four Department of Commerce Export Assistance Centers (EACs) with significant automotive clientele hosted seminars for U.S. suppliers on the benefits and opportunities afforded to them as a result of the Agreement.

As a follow-up to those seminars, smaller, informal meetings between approximately 15-20 U.S. auto parts companies and U.S. subsidiaries of Japanese companies (both vehicle assemblers and parts manufacturers) have been held. These meetings are designed to have the participants engage in an informal, cooperative dialogue addressing industry topics such as technology, engineering and sourcing issues, production systems, and quality improvements. Last May, the Department of Commerce, in cooperation with Georgia State University's Department of International Business, hosted a meeting in Atlanta between officials from Nissan and approximately 20 U.S. suppliers to discuss future requirements and capabilities for suppliers to the Japanese automotive industry. In addition, the Pontiac, Michigan EAC hosted a session with Toyota representatives demonstrating the Toyota Production System for 50 U.S. suppliers. Additional sessions are currently being planned for Chicago, Atlanta, and Ontario, California. The meetings have been beneficial for U.S. suppliers interested in learning about Japanese companies' expectations of their suppliers Feedback from both U.S. and Japanese companies regarding the meetings has been very positive.

Assessment of Progress

U.S. access to the Japanese auto parts market is improving, with sales of U.S.-made parts to Japanese automakers in the United States and Japan increasing at a healthy pace. Sales in the U.S. have grown to the point that transplant-produced vehicles now have an average of more than 50 percent U.S. parts content. However, it should be noted that the growth in U.S. exports to Japan is from a small base, and overall foreign market share in Japan remains low.

Japanese automakers have generally met or exceeded their company plans (issued in June 1995) to increase U.S. procurement and appear to be achieving the objectives set out, particularly with regard to the expansion of U.S. facilities producing vehicles and major components. These actions are creating good opportunities for U.S. parts suppliers. The relative slowdown in the rate of growth experienced in the past two years primarily parallels slower rates of increase in vehicle production. On a per-vehicle basis, U.S. parts content is continuing to rise. As a result of this faster growth in U.S. parts content relative to growth in the number of transplant vehicles produced, the value of parts imported from Japan has fallen significantly over the past year and a half. This is the first time the value of parts imports from Japan has decreased since transplant vehicle production began its sharp rise in the early 1980's.

JAMA data also show the annual growth rate in U.S. exports of parts to Japan from JFY1992 to JFY1996 was 11 percent. Although this is a positive trend, it started from a relatively low base. In addition, most of these 1996 exports were for OE use, with only $160 million for OES use. Moreover, foreign parts account for a very small portion of the total OE parts market in Japan, with U.S.-made parts accounting for less than an estimated 2 percent of the OE market. Foreign parts represent a much higher portion of the total parts industry in the EU and the U.S. For example, parts imported from outside the EU account for an estimated 12 percent of the total EU parts market, and over 30 percent of the U.S. market. Much more progress is needed in these areas.

DEREGULATION OF THE AUTO PARTS AFTERMARKET

A key goal of the Agreement is to expand access by foreign auto parts suppliers to the large and lucrative auto parts aftermarket in Japan. This goal is to be accomplished primarily by removing or revising those MOT regulations affecting the repair and inspection of vehicles that had the effect of channeling repairs to dealerships or other garages that used only original equipment replacement parts.

The Japanese Government has made progress in carrying out the specific deregulatory measures called for in the Agreement, but much more remains to be done.

Special Garages

As called for in the Agreement, MOT approved two new types of repair garages which potentially will provide more export opportunities for U.S. parts producers. On February 20, 1997, MOT announced it would create a new category of garage -- the specialized certified garage. These garages will perform work on fewer than all seven disassembly repair systems after meeting specific MOT requirements. For example, if a garage only wants to do repair work on brakes, it will not need as many tools, mechanics, and floor space as a garage qualified to repair all seven systems. During the last San Francisco consultations, an MOT official stated that 102 specialized certified garages have been "created" since the new regulations went into effect in February 1997.

Although the extent of the changes will be determined by which system or combination of systems the garage chooses to be certified to repair, it is expected that in general the mandated minimum floor space for such facilities will be reduced by about 20 percent, only one certified mechanic will normally be needed (instead of two), and the required number of tools will be reduced approximately 30 percent. Currently, most of the disassembly repairs are done at Japanese dealerships or other fully certified (by MOT) repair garages which predominately use Japanese-made OE service parts. Thus, this important regulatory change creates a whole new category of independent garages, creating the opportunity for these garages to sell competitive foreign parts. (Independent garages tend to use more non-OE, thus foreign-made, parts than dealers or OE-affiliated garages.) However, it remains to be seen if other obstacles, such as strict zoning laws, will impede the establishment of more, new specialized certified garages.

Despite MOT's approval of these types of garages, MOT still requires that a mechanic has to be trained in all seven systems of disassembly repair, and not just the systems in which these new garages are authorized to repair. The U.S. Government has proposed that MOT establish new regulations which require that a mechanic need only to be trained in the system/systems he will be repairing (brakes, engines, etc.). This will create additional mechanics more rapidly, and reduce the cost of employing a mechanic who is not trained in all systems. The mechanic can then be trained in additional systems if he wants to advance, thus increasing his skills and commanding a higher salary.

The second type of garage approved by MOT is called a special designated garage. The new regulations allow non-designated garages to share facilities with a designated garage. The intent of the new regulation is to allow two or more garages (non-designated) to jointly own a designated garage, allowing each garage to share in the expense. In addition, many existing garages may not be able to expand their floor space to qualify for designated garage status, or there may be zoning problems, and this new regulation may provide more opportunity. During the 1997 San Francisco consultations, MOT told the U.S. Government 70 new special designated garages have been approved since the beginning of March this year.

Parts Data Base

In 1995, the Japan Automobile Service Promotion Association (JASPA) began to establish a data base, which will provide garages in Japan with information on foreign-made aftermarket parts. JASPA calls this data base the Foreign-made Automobile Components Information Network System, or FAINES. One of the principal objectives of FAINES is to identify which foreign-made parts are interchangeable with Japanese OE parts. Thus, Japanese mechanics, especially those working in independent garages, will be able to identify which foreign part is interchangeable with a Japanese-made OE part, increasing the likelihood that a foreign-made part would be installed. It will not be fully operational until April 1998, but there is currently an experimental program which involves a number of U.S. auto suppliers. Based on conversations with the U.S. parts industry, we believe the program is progressing satisfactorily.

Critical Parts

Under the Agreement, four components were targeted for immediate removal from the disassembly repair regulations: shock absorbers, struts, trailer hitches, and power steering systems. In addition, the Agreement called for a broad and full review of the definition of disassembly repair. The objective of this review was to determine the necessity of the regulations or remove from the definition specific repair operations which were not necessary in order to ensure safety and environmental protection. As a result of this review, however, MOT eliminated only stabilizers, torque rods, torsion bar springs, and clutches for motorcycles from the disassembly repair regulations in August 1996. Removal of these last four parts categories were deemed commercially insignificant by the U.S. Government and industry because these are not frequently repaired parts and there are virtually no opportunities for U.S. producers to supply these parts.

The U.S. Government and the U.S. automotive industry have continued to press the Government of Japan for additional, meaningful actions in the automotive arena as part of its current deregulation effort set forth in the Government of Japan's Deregulation Action Plan. For the past two years, the U.S. Government has submitted formal requests to the Government of Japan that the disassembly repair regulations be eliminated or liberalized as part of regulatory reform program. The U.S. Government has also supported the industry petition to have brake systems removed from parts designated as being critical.

Both Australia and the European Union have sent written submissions to the Japanese Government in support of further deregulation in the Japanese parts aftermarket. The EU stated it supports further deregulation in the field of repair and inspection, while Australia specifically mentioned the need for changes in the disassembly repair regulations and cited brake systems as an example. During the last round of consultations in San Francisco, Canada, Australia, and the EU supported the U.S. position to further deregulate the Japanese parts aftermarket.

On March 28, 1997, as part of this year's Deregulation Action Plan, the Japanese Government announced that MOT would sponsor a study to evaluate the inspection requirements of the disassembly repair process. The final study recommended that all do-it-yourself repairs performed by owners of Japanese autos and light trucks should no longer be inspected by the MOT Land Offices. MOT agreed with this recommendation, and will submit formal legislative language to the Diet early next year to implement the change. According to MOT officials, the earliest the change in regulations could occur is mid-1998, assuming the Diet agrees with the proposed change and language.

Since relatively few consumers in Japan repair their own vehicles, these proposed changes are not likely to have a significant impact on foreign auto parts sales. Representatives from the U.S. parts industry and Japanese motor vehicle manufacturers acknowledged this fact, and even some officials from the Japanese Government have agreed. Given that consumers, who may be unqualified and inexperienced in repairing brake or engine systems, will now be allowed to perform disassembly repair on their vehicles without an inspection, a certified mechanic trained in one or all systems should certainly be allowed to perform repairs, whether or not the repairs are conducted at certified garage. It is the U.S. Government position that it is the qualification of the mechanic and not the type of garage that is crucial to ensuring safety.

The U.S. Government and U.S. industry are disappointed that a more fundamental review of the necessity of the regulations from the standpoint of safety is not being undertaken. The U.S. Government and the U.S. parts industry believe that eliminating mandatory inspection of work completed by a certified mechanic in no way would compromise the safety of the Japanese consumer.

Petitions by the U.S. parts industry

On December 23, 1996, the four major U.S. parts associations (Automotive Parts and Accessories Association, Automotive Service Industry Association, Motor and Equipment Manufacturers Association, and Specialty Equipment Market Association) filed a petition to remove brake system parts from the disassembly repair regualtions. Both former Secretary Kantor and Ambassador Barshefsky sent a letter to MOT on January 17 in support of the petition, citing the strong case made for removing these parts without an adverse effect on safety. Later in January, a Commerce/USTR/State delegation met with senior Government of Japan officials at MOT, MITI, Ministry of Foreign Affairs emphasizing the importance of removing brake parts from the regulations.

On February 5, 1997, both the U.S. Government and the four parts associations were notified by MOT the petition had been rejected "in the interest of road traffic safety." MOT noted that if brake systems were eliminated from the disassembly repair regulations, "it would render a situation where disassembly of repair of brakes (would) be attempted by unqualified mechanics without proper facilities." On February 18, MOT officials visited Washington D.C. and again informed the U.S. Government and the parts associations the petition had been rejected due to safety reasons. Prior to the MOT visit, the U.S. Government expressed its disappointment over the rejection of the petition.

The associations requested reconsideration of the brake petition on March 7, 1997. They expressed disappointment with the February MOT decision, and offered additional information which would help to clarify MOT's misunderstanding of the U.S. automotive repair market. The petition was again turned down by MOT, which again cited safety concerns as the basis for the rejection. A letter written by Secretary Daley and Ambassador Barshefsky was sent to MOT Minister Koga August 17 expressing concern over the pace and scope of deregulatory actions taken by MOT, and specifically asked for removal of brake systems from the disassembly repair regulations. Minister Koga replied in late September that he had already replied to two U.S. Government letters stating removal of brakes from disassembly repair would cause safety concerns, and MOT's position still had not changed.

On September 12, 1997, a petition on behalf of U.S. parts associations was sent to Masakazu Kume, Director of the Maintenance and Service Division, requesting further deregulation in the Japanese parts aftermarket. In addition to reiterating its requests for removal of brakes from the disassembly repair regulations, the associations requested: 1) individual mechanics be able to apply to be tested and certified in any one or a combination of the motor vehicle safety systems subject to MOT's disassembly repair regulations, 2) MOT work with other Japanese Government agencies which oversee zoning regulations so that applications for specialized certified garages be expedited, and 3) MOT continue its special assistance in helping U.S. parts suppliers increase their opportunities to sell their products in Japan.

During the U.S. Government/Japan consultations in San Francisco this year, MOT said the Japanese Government will hold hearings early next year on the certification requirements for specialized mechanics. Although no specific plans for conducting the hearings have been put forward by MOT, the U.S. Embassy in Tokyo has been informed by MOT that information regarding the hearing may be sent out as early as mid-November, and MOT said that the hearing would be open to a "wide selection" of participants.

Assessment of Progress

The Japanese Government has enacted all the deregulatory measures specifically called for in the Agreement, and we are told by U.S. industry members that they see progress. Our industry is experiencing a fundamental change in the opportunities to supply the aftermarket, but it also believes there is room for much more improvement in deregulating the market.

Although import data for use in the Japanese aftermarket are not available, it is estimated (based upon U.S. export data, JAMA data, and information from U.S. representatives in Japan) that U.S. parts manufacturers hold less than 1 percent of the Japanese aftermarket. Total foreign market share is estimated at less than 2 percent. Japan still has, by far, the lowest foreign share in this market segment among developed auto producing countries.

An important aspect of the MOT deregulation process is the removal of certain parts designated as critical. We believe removing brake systems and other items from the disassembly repair regulations, or elimination of the regulations entirely, remains a key factor in opening the Japanese aftermarket. Two of the parts (shock absorbers and struts) removed from the disassembly repair regulations since the Agreement was signed have shown significant increases in sales. For example, total imports of U.S. shock absorbers and struts into Japan increased almost 90 percent during 1996 compared with 1995. However, for the other six parts which were removed from the regulations, the U.S. parts industry sees little opportunity for increased sales. Existence of these regulations will continue to channel consumers to certified garages as long as the most frequently repaired items — such as brakes — are included. The U.S. Government believes that significant further deregulation is needed in the disassembly repair regulations.

Progress has occurred in other areas of repair/inspection regulations in Japan. For example, the February announcement by MOT approving specialized certified garages, if implemented as expected, will help to open the aftermarket to more foreign parts. Already, Autobacs Seven, Japan's largest auto parts and accessories retailer, has announced it will enter the auto repair business with the intention of opening about 50 specialized repair shops by the end of JFY97. As more independent garages, not aligned with the Japanese vehicle manufacturers, are allowed to perform repair work, foreign parts makers will be able to sell more parts in Japan, and Japanese consumers will reap the benefits of greater competition and lower prices. In addition, we believe additional opportunities will open for U.S. parts suppliers if MOT adopts the current U.S. Government proposal to change the regulations concerning mechanic certification (mechanics need only be trained in the systems their garages are certified to repair).

The availability of an efficient distribution network for non-original equipment replacement parts is also needed to increase access to the Japanese aftermarket. The successful completion of the JASPA Foreign-made Automobile Components Information Network System (FAINES) and the release by MOT of the Japanese vehicle registration data will greatly enhance opportunities for manufacturers of foreign parts to sell their products in the Japanese aftermarket. A continued program of notification by MOT and/or MITI (already initiated) to mechanics and garages that they should refrain from any form of discrimination as to whether parts are Japanese- or foreign-made will also help open the distribution system to foreign producers.

MARKET BACKGROUND

The Japanese Economy

In contrast to the strong sustained expansion of the U.S. economy, growth in Japan has been sluggish during much of the 1990s. After five years of very slow growth, the Japanese economy grew by 3.5 percent in 1996 due in part to a $130 billion first quarter fiscal stimulus package. Despite this stimulus, growth was uneven during 1996. Growth stalled in the second and third quarters before rebounding in the final quarter, in part because consumers increased spending in anticipation of a higher consumption tax.

Japanese economic growth has weakened again in 1997. After a strong first quarter, domestic demand fell precipitously under the combined impact of the increase in the consumption tax to 5 percent on April 1, expiration of the temporary income tax reduction program, and higher medical and utility payments. In addition, fiscal austerity led to non-renewal of public investment programs as they expired. The result has been that exports again are the leading contributor to what strength the Japanese economy has. There is a growing dichotomy between the economic health of large, export-oriented companies and smaller firms which primarily serve the domestic market in Japan. Even large companies which sell domestically and internationally find most of their sales increases and profits are being generated from overseas markets. In October, the Japanese announced an economic package to address weak domestic demand. The package includes provisions to lower corporate income and land taxes, increase real estate market liquidity and accelerate deregulation. Details are expected to be decided by the end of the year. However, the stimulative effect of the program could be constrained by the current policy of fiscal austerity.

The international competitiveness and profitability of Japanese industry has benefitted from the overall weakening of the yen during the same period the Agreement has been in effect. Over the course of 1996 and into the first six months of 1997, the yen has depreciated over 30 percent. These exchange rate trends, among other factors, have affected our bilateral automobile trade. In the U.S. market, vehicle imports from Japan surged by 17 percent between the third and fourth quarters of 1996. During the first half of 1997, auto imports from Japan recorded a 20 percent increase over 1996 levels. Higher imports from Japan have translated into increased market share for Japan's automakers in the United States. Japanese nameplate market share has increased from 22.8 percent during the first nine months of 1996 to 23.8 percent during the same period in 1997. The Big Three market share in the United States fell from 72.8 percent to 71.3 percent in the same time period.

Automotive Markets

Throughout 1996 and the first half of 1997, the U.S. motor vehicle and parts industry generated healthy profits from strong domestic sales and expanding exports. The industry has continued to make substantial investments in new and existing manufacturing plants and equipment, and has continued to develop entirely new, higher quality and more competitive vehicles and parts. The

United States overtook Japan as the world's largest motor vehicle producer in 1994. (Commercial and light vehicle production in the U.S. totaled 12.3 million units, 11.6 million units and 11.8 million units in 1994, 1995 and 1996, respectively. Production in Japan during the same three years was 10.6 million units, 9.8 million units and 10.3 million units. In the first eight months of 1997, total U.S. production reached 7.9 million units; Japanese production was 7.4 million units.) U.S. production of automotive parts also continues on an upward trend and is expected to reach a record $153 billion in sales in 1997. Annual output has been growing at real average annual rate of 7 percent since 1992, compared with slower growth rates seen in Japan and the European Union.

In 1995, official U.S. trade data showed that new motor vehicle exports from the United States to the world totaled 1.29 million units worth $20.2 billion. In 1996, exports to the world reached 1.34 million vehicles, a 3.8 percent increase. Export value grew 6.2 percent, reaching $21.4 billion during that year. Motor vehicle exports to Japan grew steadily during the first nine months of 1996. However, shipments to Japan declined in the final three months, resulting in an 11 percent overall decline for the year to a total of 123,600 units. The value of these shipments was $2.3 billion, a decrease of 15 percent.

In the first half of 1997, exports of new U.S. vehicles to the world grew 9.1 percent to 784,000 units worth $12.1 billion, an increase in value of 8.1 percent compared with the same period in the previous year. Unit exports of motor vehicles to Japan, however, declined 34 percent to 50,000 units. The value of exports declined 38 percent to $879 million.

In 1996, the United States exported $40.8 billion worth of automotive parts to the world, up 4.3 percent from 1995. Parts exports to Japan jumped 20 percent to slightly under $2 billion. In the first half of 1997, worldwide U.S. automotive parts exports totaled $21 billion, up 13.2 percent from the same period in 1996. Exports to Japan during the same period increased 13.9 percent to $1.1 billion.

The United States Market

In 1996, sales in the United States of passenger vehicles and light trucks increased 2.6 percent from the previous year, rising to nearly 15.1 million units. American brands, (including American-brand imports), held 72.8 percent of the 1996 market, down two-tenths of 1 percent from their 1994/95 share, but up seven-tenths from 1992 and up 2.4 percents from their most recent low in 1991. Japanese brands, including both U.S. produced and imported products, supplied 22.8 percent of the 1996 market, down one-tenth of 1 percent from 1995, and down 3 percent from their 1991 high. In the first nine months of 1997, the market was off slightly from the same previous period, totaling 11.5 million units, a decline of 0.7 percent. Most industry analysts expect that the U.S. market will stabilize at around 15 million units annually for the next several years, but with a continued shift toward light trucks and hybrid sport utilities that are based upon car platforms. The Big Three nine-month share declined by 1.5 points, falling to 71.3 percent on sales that declined 2.7 percent to 8.2 million units. Japanese brands gained one share point,

reaching 23.8 percent on sales of 2.7 million units, an advance of 3.8 percent.

Sales of imported cars and light trucks (excluding vehicles imported from Mexico and Canada) peaked in 1986 – when they accounted for 25.9 percent of the overall market, or 4.2 million units. Units imported from Japan by the Big Three and Japanese manufacturers supplied 20.5 percent of the total market that year. Import sales declined steadily thereafter and by 1992 had fallen to an overall share of 18.2 percent, or 2.3 million units. Vehicles imported from Japan represented 14.4 percent of the total market that year. By the end of 1996, imported motor vehicle sales had fallen further, dropping 1.6 points during the year to an 11.3 percent market share. Imports from Japan, 1.1 million units, supplied 7.5 percent of total U.S. sales in 1996, down 1.7 points from the previous year. In the first nine months of 1997, sales of Japanese imports reached 974,000 units, and increase of 14 percent from the same previous period. Their share rose to 8.5 percent, a gain of 1.1 points.

During 1996, car and light truck production in the United States dropped by 1.5 percent compared with 1995, falling to a total of 11.4 million units. The U.S. Big Three accounted for 79.4 percent of the 1996 total. Light vehicle production in the first nine months of 1997 reached a total of 8.7 million units—off 0.5 percent. The Big Three share was 79.6 percent, compared with 79.7 percent in the same previous period. After increasing every year since Japan began production in the United States in 1982, local assembly by the Japanese-affiliated plants grew by just 7,000 units in 1996 over the previous year, reaching a total of 2.3 million vehicles. Their production declined by 1.3 percent to 610,000 units during the first half of 1997, compared with the previous period.

The U.S. automotive parts industry produced a record $150 billion worth of parts in 1996, and its output is expected to rise to $153 billion in 1997. Since the industry's cyclical trough in 1991, output has grown at an 9 percent real average annual rate. Sales in the North American market have grown accordingly: 1996 North American sales by the top 20 U.S. OE automotive parts suppliers totaled $106 billion, up almost 12 percent from 1995, and 1997 figures are expected to show a similar increase. Import penetration of the U.S. automotive parts market — which totaled $158 billion in 1996 — has hovered around the 30 percent level since the early 1990s.

Market Conditions in Japan

The large scale, recessionary trends in Japan's economy are being reflected in its motor vehicle market; there has been a precipitous decline in domestic demand accompanied by increased production made possible by growing exports. At the end of the first quarter of 1997, motor vehicle sales in Japan were running 11 percent above sales in the first quarter of 1996. By the half year point, the gain over the prior year's sales had dropped to about 1 percent. As of September 30, 1997, the gain over sales in the prior year had disappeared, with sales approximately 2 percent lower than during the same period in 1996. At this rate, motor vehicle sales may fall to a level they last reached in 1995, 6.9 million units.

Regarding Japan's auto exports -- consistent with the broader economy -- as domestic demand for autos dropped, auto exports surged and are currently exceeding exports of the prior year by approximately 25 percent. Exports of motor vehicles from Japan declined every year since peaking at 6.7 million units in 1985. In view of the current trend, however, exports in 1997 appear likely to reach approximately 4.5 million units, a level they last achieved in 1994.

The export surge has provided support for Japan's motor vehicle production during the year. Production during the first eight months of 1997 is approximately 10 percent above production for the same period in the previous year. At this rate, Japanese motor vehicle production could exceed 11 million units for the first time since 1993. Auto production in Japan will probably still fall short of U.S. production, estimated to reach approximately 11.5 million units by the end of 1997.

APPENDIX A: U.S. Exports of New Passenger Vehicles and Trucks to Japan

	1992	1993	1994	1995	1996	1997 Jan. -June	96/97 Jan.-June % Chg
Unit Exports to Japan							
Passenger vehicles	42,439	58,582	103,463	133,953	113,963	44,638	(37)
Trucks	395	285	1,823	5,245	9,671	5,250	13
Total	42,834	58,867	105,286	139,198	123,634	49,888	(34)
Value of Exports to Japan ($ millions)							
Passenger vehicles	727	1,019	1,789	2,616	2,090	772	(41)
Trucks	4	3	33	104	233	107	(10)
Total	731	1,022	1,822	2,720	2,323	879	(38)

Source: U.S. Census Bureau

APPENDIX B: Explanation of Data Sources

Japanese Automobile Manufacturers Association (JAMA) Data

In 1987, the U.S. Government and Japanese Government signed the Transportation Machinery Market-Oriented, Sector-Selective (MOSS) Agreement, the main goal of which was to substantially increase U.S. sales of automotive parts to Japanese automakers. As part of this accord, the Japanese agreed to voluntarily submit to the Department of Commerce semi-annually the value of U.S. parts purchased by Japanese automakers. The data includes totals for purchases for use in the United States and in Japan and is broken out into six major parts categories.

In a side letter to the Framework Agreement, MITI renewed its commitment to supply the purchasing data and agreed to further break the data out into categories for OE and OES use. The OES data include only those aftermarket parts purchased by dealers in Japan, and do not include parts purchased for the independent aftermarket in Japan.

Foreign Trade Zone (FTZ) Data

FTZs are areas under U.S. Customs supervision that are considered outside the customs territory of the United States. (These zones are located in the United States. For example, the Toyota plant in Kentucky is an FTZ.) Under FTZ procedures, the usual customs entry procedure and payment of duties are not required upon admission of foreign imports into the zones. Every U.S.-based passenger vehicle plant — including those operated by the Big Three, Japanese, and German transplants — is located in an FTZ, which affords them considerable savings in duties.

Under the FTZ system, automakers can import parts into zones without paying the average 4 percent U.S. duty, then ship completed passenger vehicles out of the FTZ, paying only the lower 2.5 percent duty assessed on passenger vehicles. (Since the United States assesses an 25 percent duty on pickups trucks, there is no incentive for manufacturers of these vehicles to produce in FTZs.) If the vehicle is exported, no duty is paid at all.

FTZ regulations require that automakers report the value of parts shipped into the FTZ from U.S. locations ("domestic status inputs"), as well as the value of parts imported from foreign countries ("foreign status inputs") annually to Commerce Department’s FTZ Office.

Thus, FTZ data are useful in monitoring trends in two areas of the U.S.-Japan Automotive Framework Agreement:

1. Japanese automakers' reports on domestic status inputs can be used as an indicator of Japanese transplant purchases of U.S. parts, and

2. Japanese automakers' reports on domestic status inputs, combined with foreign status inputs, can be used to crudely estimate the percentage of domestic content of transplant

production.

However, as there are several systematic anomalies in the FTZ data that tend to overstate the value of domestic status inputs, as they include parts imported from Canada under the APTA/CFTA, as well as parts imported into the United States under normal customs procedures and then shipped to the FTZ. Thus, these data should be used only to assess trends in domestic purchasing and content.

American Automobile Labeling Act (AALA) Data

The AALA requires that all passenger motor vehicles sold in the United States be affixed with a label stating the percentage of U.S. and Canadian parts content, the place of final assembly, and the origin of the engine and transmission. AALA content percentages are based on the dollar value of parts contained in a vehicle. Costs and profits at the final assembly point and beyond are not included. Under the law, the content percentages for models assembled both inside the U.S. and Canada and outside the U.S. and Canada (e.g. Honda Civic, Toyota Camry, etc.) are averaged at the beginning of the model year based on company estimates of sales in the U.S. of the models assembled at both locations. AALA data have been collected since the 1995 model year, thus 1995 is used as a benchmark year.